

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Convertible Fixed Income Investment Guidelines

Resolution 2014-11

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

WHEREAS, the Board has established an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

WHEREAS, the Board has authorized investment in convertible fixed income securities; and

WHEREAS, the Board will establish and from time to time as necessary modify guidelines for convertible fixed income securities.

NOW THEREFORE BE IT RESOLVED, THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the Convertible Fixed Income Investment Guidelines attached hereto and made a part hereof, regarding investment in convertible fixed income securities. This resolution repeals and replaces Res 2012-24.

DATED at Anchorage, Alaska this 26th day of June, 2014.


Chair

ATTEST:


Secretary

CONVERTIBLE FIXED INCOME AND PREFERRED STOCK GUIDELINES

Investment Objectives

The investment objective is to capture most of the performance of equities during rising markets, while outperforming equities in flat or down markets by investing in convertible securities. The Manager is expected to outperform the Merrill Lynch Yield Alternative Index (VYLD) (“Benchmark”) over rolling 5-year periods net of fees by investing in U.S. and non-U.S. convertible securities. The manager may also hold cash. The manager may add value versus the Benchmark by 1) selecting convertible securities considered to be undervalued because of better-than-expected corporate fundamentals or other features of the particular issue; 2) over or under-weighting sectors relative to that of the Benchmark weights; 3) investing in privately placed convertible debt; 4) investing in non-U.S. convertible issues. The Manager is expected to maximize returns within reasonable and prudent levels of risk versus that of the Benchmark and to control costs of administering and managing the portfolio.

Securities Guidelines and Restrictions

- The Manager is responsible for implementing and adhering to risk control processes as stated in its investment contract.
- The Manager may invest in investment or non-investment grade rated convertible securities, which include 1) convertible bonds; 2) convertible preferred stock; 3) bonds or preferred stock with warrants; and 4) zero- and low-coupon convertibles. The ratings for investment and non-investment grade credit ratings are as defined below:

	Investment Grade	Non-Investment Grade
Standard & Poors’ (S&P)	BBB- or higher	BB+ or lower
Moody Investor Services	Baa3 or higher	Ba1 or lower
Fitch	BBB- or higher	BB+ or lower

In the case of a split rating by two or more of the rating agencies, the lower rating shall be utilized.

- Non-rated convertible securities are permitted provided that the Manager is able to assign an appropriate credit rating consistent with the criteria used by the agencies stated above. Non-rated securities shall not exceed

the greater of 35% of the total market value of the portfolio or 1.5x that of the exposure to non-rated securities in the Bank of America Merrill Lynch Yield Alternative Index (VYLD). Non-rated securities to which the Manager assigns a non-investment grade rating are subject to the below investment grade limitation.

- The weighted-average rating of the portfolio shall not fall below the S&P rating equivalent of B. The Manager shall not purchase any security with a credit rating at or below CCC- by S&P and C3 by Moody's. However, the Manager may continue to hold securities downgraded below CCC- by S&P and C3 by Moody's if, in the opinion of the Manager, such an investment is considered appropriate given the ARMB's investment objective.
- Common shares obtained as a result of conversion must be liquidated within 20 trading days after conversion. This period may be extended upon approval by the Chief Investment Officer.
- The Manager shall not purchase any security, which would cause more than 5% of the portfolio assets at market at the time of purchase to be invested in the securities of any one issuer.
- The Manager shall not purchase any security, which would cause more than 25% of the invested assets at market to be invested in securities of issuers primarily engaged in any one industry.
- The Manager shall not purchase the securities of a company for the purpose of acquiring control or management thereof.
- The Manager shall not purchase shares of mutual funds or commingled vehicles.
- The Manager shall not make short sales of securities or maintain a short position, nor purchase securities on margin.
- The Manager is not permitted to lend or pledge securities in the account.
- Non-US securities are permitted provided that the security is dollar denominated. These securities are limited to 25% of the portfolio at market. Issuers included in the Merrill Lynch US All Convertible Index

(VXA0) will be considered domestic/US for purposes of the account restrictions.

- The use of derivative securities including (but not limited to), futures, options, & swaps is prohibited.

Any changes deemed necessary by the Chief Investment Officer or Manager will be fully discussed and agreed upon by both before taking effect. Any such changes will then be incorporated in writing into the Guidelines.